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March 8, 2010

Mary F. Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

Re: Comments on Part 704 Corporate Credit Union

Dear Ms. Rupp:

I am the Sr. Chief Financial Officer of Resource One Credit Union located in Dallas Texas. We appreciate the opportunity to provide input regarding the proposed revisions to Regulation 704. Over the past twelve months, credit unions across the nation have recorded significant write-downs and losses due to actions of a few corporate credit unions. We agree in "spirit" with the underlying intent of NCUA's proposed regulations aimed at protecting the credit union industry and the share insurance fund. However, we are very concerned that the proposed regulation is so overreaching that it will threaten the survival of the entire corporate credit union system.

Southwest Corporate FCU has been our primary source for managing liquidity for more than twenty years. They also provide us with several correspondent services that are critical to our internal operations. Southwest Corporate offers superior products and services at reasonable prices which allows us to pass the savings to our members.

## **Comments and Recommendations:**

### **Time Period for Capital Ratio Attainment**

The twelve month transition period to achieve the new capital requirements seems unreasonable. Essentially, once the final revision of Part 704 is published, every

products and services. Undoubtedly, this will cause an erosion of the competitive advantage they currently enjoy. This will only increase pressure on corporates to solicit recapitalization investments. The weak U.S. economy, record high unemployment, declining market values and no "legacy asset" solution will present further challenges. Allowing corporates only twelve months to reach the capital thresholds is too aggressive and unrealistic.

Recommendation: Allow corporate credit unions a minimum of two years to attain the first transitional core capital threshold.

### **Lack of Legacy Assets Provision**

In our opinion, the legacy assets issue is the most important issue facing corporate credit unions. Participation by natural person credit unions in the recapitalization process is critical to the long-term viability of the entire credit union industry. As it stands today, it is extremely unlikely that any natural person credit union would participate in the recapitalization process without a solution to the legacy asset issue.

We are aware of many natural person credit unions that are actively pursuing non-credit union providers to replace their corporate credit unions. The longer the legacy asset issue remains unresolved, the greater the likelihood that a significant number of large credit unions will leave the corporate system. A large wave of credit unions leaving the corporate system will place a heavy burden on individual corporate credit unions. Not only would this negatively impact the corporate's earnings, it could also lead to a serious liquidity issue.

Recommendation: Immediately stop the entire Part 704 revision process until a solution to the legacy asset issue has been established. Protection from existing toxic assets and the ability to deliver superior products and services at a competitive price are essential to the recapitalization process. If the corporates fail to recapitalize, the corporate credit union system is doomed.

### **ALM limitations**

The proposed cash-flow mismatch limit of two months and the maximum two year aggregate weighted average life (WAL) limit of the corporate's balance sheets will critically impede their ability to reach capital ratio attainment. To reach the prescribed capital requirements, corporates will be forced to increase their transactional fees. This

may result in a loss of membership and ultimately make it much more difficult to solicit recapitalization funds.

Recommendation: Find the middle ground between unsafe long-term durations and the proposed twenty four month aggregate weighted average life limits. Risk should be managed, but not eliminated

*This quote expresses our feelings so well:*

*Corporates provide services that are unavailable anywhere else in our cooperative industry. Without them, NPCUs would be forced to look for these services in the for-profit arena. The size of most NPCUs limits their ability to negotiate competitive pricing and contract conditions. This would undoubtedly lead to decreased net income due to increased processing fees, increased cost of borrowing and decreased investment yields. This decrease in net income will impact all credit union members; however, it falls heaviest on the members of smaller credit unions."*

*Anonymous*

Thank you for providing Resource One Credit Union the opportunity to comment on such an important issue. We truly value our relationship with Southwest Corporate FCU, and hope to continue to utilize their services, which ultimately benefit our members.

Sincerely,



Jim Ladner  
Sr. Chief Financial Officer